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SUBJECT: IRAQ'S PROGRESS ON MCC INDICATORS: OUR ASSESSMENT

REF: A. BAGHDAD 1085
 [B.](#) BAGHDAD 1838
 [C.](#) BAGHDAD 959
 [D.](#) BAGHDAD 1802

[¶](#)1. (SBU) Summary: Iraq's post-conflict economy continues to improve but it remains challenged by deep-rooted problems of corruption, red tape, an ill-equipped workforce, and land disputes. Although the GOI still focuses a lot of energy on the development of its oil sector, future foreign investment and diversified economic growth will only take place when these deep underlying issues are addressed. Hard data are extremely difficult for any organization to collect in Iraq, but there is some anecdotal evidence that tangible progress is being made on some the USG Millennium Challenge Corporation (MCC) Scorecard Indicators. To complement the few reliable statistics available, we offer the following narrative summaries of our assessment of Iraq's progress under the MCC's three pillars: Ruling Justly, Investing in People, and Economic Freedom. End summary.

Reliable Data are Difficult to Get

[¶](#)2. (SBU) Although Iraq's security situation has improved considerably over the past few years, it is still challenging to collect standard development data. The United Nations and its family agencies have a relatively small presence in country and have published very few figures on Iraq since 2006 on their UN Stats site for the Millennium Development Goals (See: <http://mdgs.un.org/unsd/mdg/Data.aspx>). The World Bank has only two full time representatives on the ground and the IMF office for Iraq is based out of Jordan. Few international NGOs are capable of operating here because the prohibitive security costs. Their rankings and indices can only be considered as reliable as their primary data, which is difficult to obtain and objectively cross-check.

[¶](#)3. (SBU) Given these difficulties, most of the data that are published in Iraq have been collected and published by GOI entities. The Central Organization for Statistics and Information Technology (COSIT) and the Ministry of Planning are the principal data GOI collection agencies, but their work has also been limited by the security environment. With some help and funding from the World Bank, COSIT was able to conduct the nationwide Iraq Household Socio-Economic Survey in 2007, which will become a baseline for comparisons with follow-up surveys starting next year. COSIT intends to conduct a nationwide census starting this fall that will be published in 2010. The Ministry of Education and the Ministry of Health, however, thus far have not been able to provide us any statistics related to the Millennium Development Goals. (NOTE: The Ministry of Education official tasked with filling out the annual UNESCO report that would feed into the MCC education indicator was killed in a bombing July 10. The Ministry of Education will be able to finish the report by July 31. If not, Post will get all possible information on education expenditures for the MCC from the

2009 budget. END NOTE.) Because of the need for better economic data, the Embassy has been funding the Iraqi Institute for Economic Reform in order to get them set up as an independent economic think tank in country and capable of cross-checking GOI figures.

Ruling Justly

Political Rights

14. (SBU) Iraq's democracy continues to mature, especially with successful provincial elections held in January 2009. The law provides for the free exercise of human rights, but violence, corruption, and organizational dysfunction undermined the government's ability to protect them. Over the past year, however, violence has decreased significantly. The past year, however, violence has decreased significantly and some reconciliation occurred in several provinces. Disciplinary action, including prosecutions leading to convictions, was taken against some government officials accused of violating human rights (Ref: 2008 Iraq Human Rights Report).

Control of Corruption

15. (SBU) Corruption remains prevalent throughout the GOI and is one of the most significant obstacles to economic growth, but there have been some recent positive developments. The GOI ratified the UN Convention Against Corruption in April 2008. There are three GOI anti-corruption entities - the Board of Supreme Audit (BSA), the Commission on Integrity (COI), and the Inspectors General Service (IGS). The GOI is developing a draft GOI Anti-Corruption Strategy to help meet its Convention obligations and has sent a draft Comprehensive Anti-Corruption Law to the Council of Representatives for passage. The COI has run public service announcements against corruption, set up an anti-corruption hotline (which has received more than 13,000 calls thus far in 2009), and held a conference with the Ministry of Education to discuss an Anti-Corruption curriculum for Iraqi pupils. The underlying legal framework against corruption as part of the Iraqi Criminal Code is acceptable. Enforcement or lack thereof, however, is largely a political question whereas party, sect, and favoritism still weigh more in the calculus than ethics. For example, although the Minister of Trade was forced to resign for his alleged corrupt activities, it is not clear if he will ever be formally charged.

Rule of Law

16. (SBU) Ongoing violence has meant the GOI has generally had a weak performance upholding the rule of law. Judges frequently face death threats and attacks. Long delays, low standards of evidence, political interference, and inadequate access to representation hamper the judicial process. Yet, there is anecdotal evidence to suggest that over the past year judges have been more objective in their decisions. The success of the Iraqi High Tribunal is particularly noteworthy. Since the Tribunal became fully independent from the Regime Crimes Liaison Office in September 2008, it has grown as a fully-functioning independent court, added three more trial chambers, and resolved cases more quickly while safeguarding defendants' rights to due process.

Investing in People

Health and Education Expenditures Rise

17. (SBU) Health and primary/secondary education remain top GOI priorities and the GOI is clearly starting to invest more in its people despite decreased government revenues. Budget expenditures in 2009 increased relatively and absolutely over 2008 for both health and primary/secondary education. Lower oil prices meant the final 2009 GOI budget was only 81% of the 2008 figure. Yet, according to official budget figures, 2009 GOI health expenditures increased by 55% (from \$776 to

\$1210 per capita) and education (excluding higher education) increased by 80% (from \$784 to \$1411 per capita). Health expenditures went from being a mere 3.1% of the total 2008 budget up to 6% in 2009. Education spending went from 3.1% in 2008 to almost 7% in 2009.

Natural Resources: Oil, Water, and Marshland

¶18. (SBU) Iraq is one of the lowest cost sources of crude oil on the globe and the Iraqi Ministry of Oil (MOO) is trying to attract foreign investment to more efficiently exploit it. However, because of stringent GOI conditions, the MOO's June 30 bid round resulted in a winner for only one of the eight fields on offer (Ref. A). Contract negotiations will take months to complete, meaning significantly increased production is unlikely before 2011. To the GOI's credit, the bid round was conducted transparently without any hints of favoritism. Due to this reputation for transparency, the GOI will be in a good position to conduct possible future rounds for the remaining fields.

¶19. (SBU) Water is a vital resource that has been relatively scarce in Iraq because of a prolonged drought over the past two years. Outdated irrigation practices have exasperated the effects of the drought and depleted Iraq's strategic water reserves. Consequently, according to MCC indicator data, the percentage of people with access to an improved water supply decreased from 81% in 2006 and 2007 to only 77% in 2008. The Iraq Relief and Reconstruction Fund (IRRF) Qin 2008. The Iraq Relief and Reconstruction Fund (IRRF) projects completed to date by the USG have restored or added the capacity to treat 2.25 million cubic meters of potable water per day, with the potential to serve 8 million Iraqis. The Ministry of Water Resources is now instigating new infrastructure projects to improve irrigation facilities. After diplomatic pressure, Turkey has also increased the water flows through its dams in response to the drought, though it is unclear for how long this will continue.

¶10. (SBU) The marshlands near the Persian Gulf are an important ecological resource and Iraq has recently taken significant steps to protect them. (Ref. C) Iraq acceded to the Convention on Wetlands of International Importance (Ramsar) on February 17, 2008 and designated 1377 square kilometers of the Hawizeh marshes in the south as its first Ramsar site.

Economic Freedom

Investment

¶11. (SBU) Though the Iraqi market offers considerable opportunities for both domestic and international commerce, Iraq's investment and trade climate continues to prove challenging for both Iraqi and international concerns. The GOI's stated policy is to work towards WTO accession, though it has demonstrated little progress on key, WTO-compliant laws and regulations that would form the basis of meaningful accession negotiations. Significant security concerns, cumbersome procedures for new business registration, long regulatory delays, unclear land and property titling, unreliable mechanisms for dispute resolution, and allegations of endemic corruption are among the many issues which continue to deter domestic and international economic engagement. More broadly, a legacy of central planning and inefficient state-owned enterprises continue to slow Iraq's attempts to transition to a more market-based economy.

Land Issues

¶12. (SBU) Land tenure is a key factor in improving Iraq's business climate. Competing land titles from the Saddam regime and strict prohibitions on foreign ownership of land have discouraged investment (Ref. B). Iraq's National Investment Law (NIL), which was passed in 2006, has a provision that permits Iraqi and foreign investors to rent (lease) lands for investment projects. However, neither the

Ministry of Finance (MOF) nor the Ministry of Municipalities (MOM), which hold 70% and 10-15% of all land respectively, currently recognize the NIL's land provisions. Prime Minister Maliki has spoken publically on how clarifying land titles and allowing foreign ownership are urgent issues with respect to investment. There is currently a draft amendment being deliberated in the Council of Representatives that would clarify foreign land ownership but the issue remains controversial.

Inflation

¶13. (SBU) Due to the Central Bank of Iraq's managed-float exchange rate policy, the Iraqi dinar has held steady at about 1170 to the dollar since the beginning of 2009. Core inflation (headline inflation minus volatile fuel, electricity, transport, and communication prices) has decreased substantially over the past year, from 13.6% year-on-year in June 2008 down to 8.8% year-on-year in June ¶2009. Inflation has decreased substantially over the past few years in correlation with improved security. Iraq's prices are now more vulnerable to global price trends such as increases in food and fuel prices. A housing shortage of about three million units nationwide means increasing rents are contributing to recent inflation.

Fiscal Policy

¶14. (SBU) Eighty-six percent of the GOI's budget comes from oil revenues. Unfortunately the GOI's revenue projections based upon an oil price of \$50/barrel and production of two million barrels per day proved too optimistic for at least the first five months of 2009. (Ref. D) The GOI has enough reserves to cover the projected \$15.9 billion deficit this year, but a potential positive 2009 supplemental budget could increase this figure. The GOI has already had difficulty making payments to GE and Siemens on \$5 billion electrical turbine deals. Iraq may benefit from a new IMF Stand-By Arrangement to be signed in October, which would provide \$5.5 billion in finance to help cover a potential deficit in 2010. But the government needs to take a serious look at its available resources in planning its expenditures for 2011. Iraq received a generous 80% cut in its debts to Paris Club members but still needs to renegotiate its outstanding debt to other non-Paris Club creditors (particularly Saudi Arabia and Kuwait) as more of its obligations come due in 2011 and beyond. Balancing GOI political desires with budget realities will be difficult until oil production significantly increases.

Comment

¶15. (SBU) Because of the extreme difficulty of obtaining reliable data here, Iraq's progress on the UN Millennium Development Goals and the MCC indicators is hard to quantify. But, it appears to be moving forward in some areas. As the security situation improves, UN agencies, the IMF, World Bank, and other international NGOs should be able to better assess developments using their normal models. This kind of data would allow one to analytically compare Iraq to its neighbors in the Middle East and other post-conflict emerging economies. The GOI Census planned for October 2009, assuming it goes forward as planned, should also provide valuable insight. Until then, the Embassy will continue to encourage the GOI to pursue the ideals of the MCC indicators for the benefit of the Iraqi people.

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